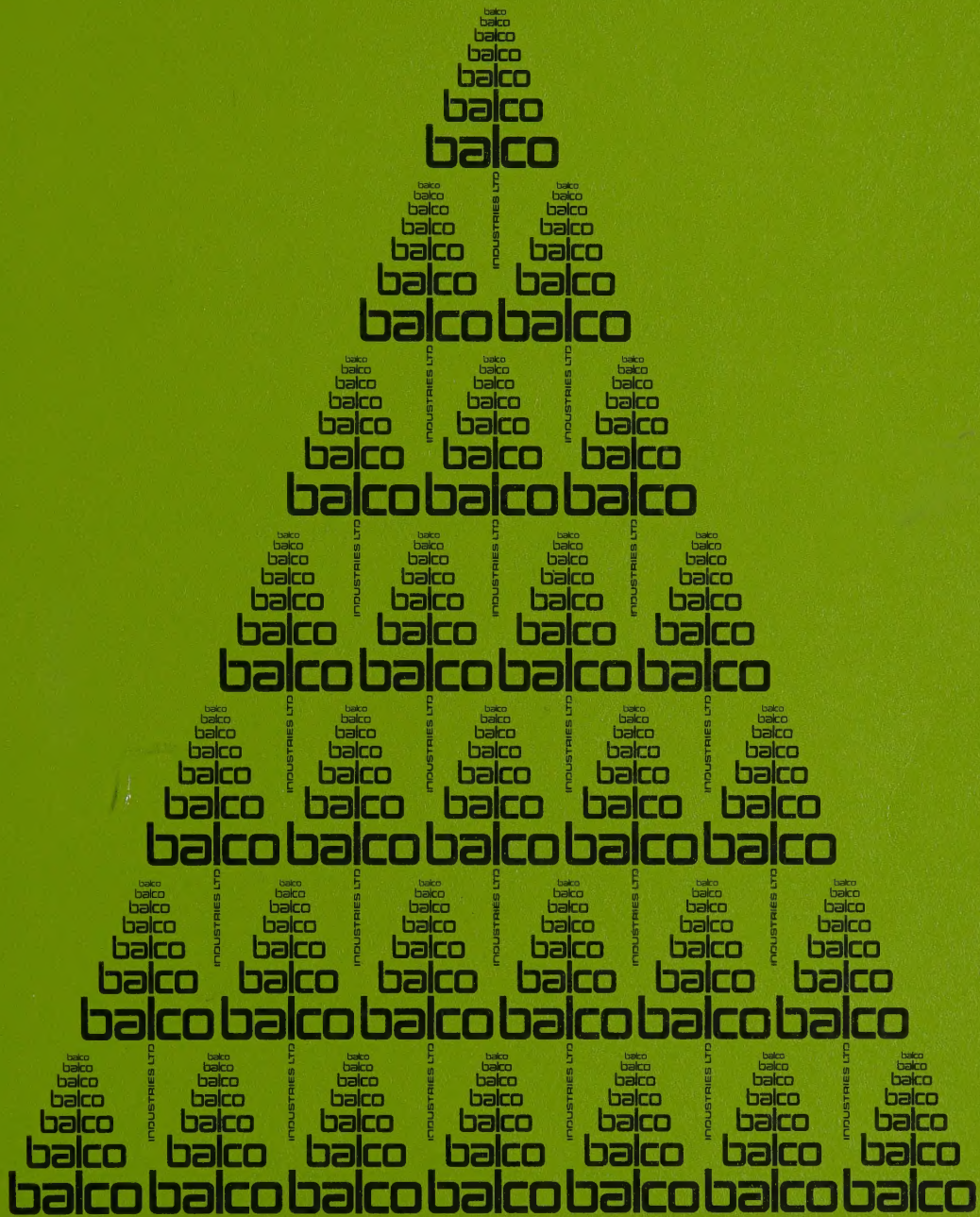


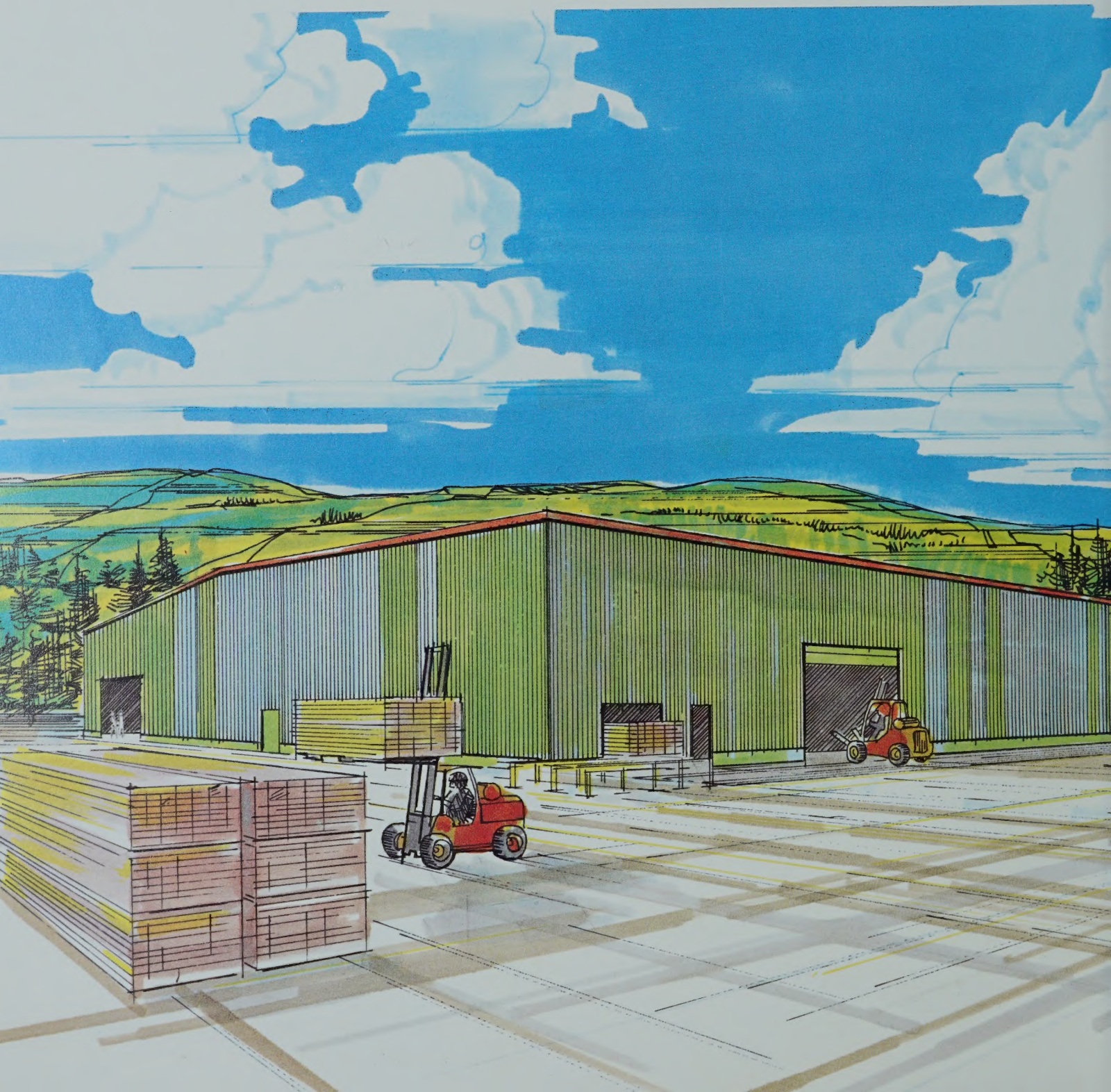
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YIBALCO



Annual  
Report  
1977







# balco

INDUSTRIES LTD  
& SUBSIDIARY COMPANIES

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## FIVE YEAR FINANCIAL HIGHLIGHTS

For the Year (in \$ 000)	1977	1976	1975	1974	1973
Sales	\$35,219	\$18,531	\$14,064	\$14,792	\$19,360
Earnings (Loss)	2,515	1,535	371	(386)	1,860
Earnings as % of Sales	7.1%	8.3%	2.6%	(2.6%)	9.6%
Depreciation & Amortization	1,758	752	586	646	639
Cash Flow	4,787	2,637	988	478	2,830
Capital Expenditures	4,081	2,080	409	894	2,075
Dividends Paid	256	277	101	252	256
<b>Per Share Amounts</b>					
Earnings (Loss)	\$ 2.50	\$ 1.53	\$ .37	\$ (.38)	\$ 1.85
Cash Flow	4.76	2.62	.98	.48	2.81
Dividends Paid	.25	.27½	.10	.25	.25
Shareholders' Equity	7.80	5.63	4.38	4.09	4.75
<b>Year End Position (in \$000)</b>					
Working Capital	\$ 738	\$ 635	\$ 611	\$ 573	\$ 1,556
Long-Term Debt Including					
Current Installments	11,957	\$ 248	\$ 964	\$ 1,490	\$ 2,301
Shareholders' Equity	7,925	5,662	4,404	4,133	4,777
Common Shares Outstanding					
(in 000's shares)	1,006	1,006	1,006	1,006	1,006

Note: The above amounts have been restated as required to reflect accounting changes and the 1973 two for one share split; earnings are before extraordinary items.







## DIRECTORS' REPORT TO THE SHAREHOLDERS

### 1977 IN REVIEW

We are pleased to report, for the third consecutive year, a marked improvement over the previous year's earnings. Consolidated earnings for 1977 were \$2,515,063 or \$2.50 per share compared with 1976 levels of \$1,534,683 or \$1.53 per share. Consolidated sales totalled \$35,219,067, up 90% over 1976 sales of \$18,530,803.

The increase in net earnings and sales is due in part to the inclusion of Integrated Wood Products Ltd. and its subsidiary companies for the five month period from July 1, 1977 to November 30, 1977. In addition, net earnings increased as a result of the favourable U.S. dollar exchange, better lumber prices and generally good productivity.

The most significant event during 1977 occurred in June when your Company acquired Integrated Wood Products Ltd. and its subsidiary companies, Fadear Creek Lumber Co. Ltd. and Nicola Valley Sawmills Limited. The Company's combined productive capacity was significantly increased by this important acquisition.

The consolidated 1978 timber cut of 435,000 cunits will provide raw material to support the production of over 200 million board feet of lumber, 130 million square feet (3/8") of softwood plywood and 100 million square feet (1/8") of market veneer.

Your Company now has sawmill operations at three locations in the southern Interior — Merritt, Heffley Creek and Louis Creek — as well as veneer and plywood plants at Merritt and Heffley Creek.

Nicola Valley Sawmills' plywood plant

at Merritt commenced production in May last year and was officially opened by the Honourable Tom Waterland, Minister of Forests, in August. Considerable progress has been made in overcoming initial production problems but it is still too early to judge whether the manufacture of plywood at Merritt will prove to be a profitable investment.

Again this past year, we were curtailed in our chip shipments and this has adversely affected our net earnings. We participated in limited export shipments from the Heffley Creek operation and while the volumes moved have not been spectacular, they have been of assistance. The world oversupply of pulp continues. As a result, we do not expect to ship our total chip output during 1978 but management is making vigorous efforts to secure export sales wherever possible.

The lumber market was better than projected with average sales returns being higher than in 1976. Demand and prices in the United States market were particularly strong and were augmented by foreign exchange gains arising from the fact that U.S. sales are made in American dollars. Our Lumber Sales Agreement with Canadian Forest Products Ltd. has worked extremely well and has been renewed for a two-year term.

In plywood, 1977 was a satisfactory year in terms of volume but not in terms of prices. The one bright spot in marketing was overseas sales which represented 26% of our total shipments — the highest ever.

Industry-wide negotiations were completed with the I.W.A. in mid-year for a further two-year term. This settlement

will cost the industry 83¢ per hour in the first year and an additional 74¢ per hour in the second year of the Collective Agreement. The key to the two-year settlement was a B.C. industry-wide pension plan for I.W.A. Members which extended past service pension credits for all members of the three plans in British Columbia. Total payments to our 953 employees for wages, salaries and benefits increased to \$11.4 million from \$6.27 million in 1976.

The combined woodlands operations had a fine year owing to favourable weather conditions, good relations with the Forest Service and a first rate group of logging and trucking contractors. A total of 603,200 seedlings were planted in those areas already harvested that were insufficiently restocked through natural regeneration.

Our subsidiary, Waymark Services Ltd., which operates a service station and restaurant at Heffley Creek improved upon its 1976 results and continues to show a modest profit.

### FINANCIAL

During 1977 your Company made capital expenditures totalling \$4,080,750 for new plant and equipment and forest access roads. The proceeds from the disposal of assets was \$141,581. The largest single capital expenditure was at Heffley Creek to provide a new planer mill facility including relocation and installation of dry kilns and new car loading dock — all at an estimated cost of \$2.5 million. This new facility, replacing two older planers, will be one of the most modern in North America and will be in operation by March 1, 1978.



During the past five years, Balco has spent over \$9.5 million to modernize and expand its manufacturing capability and to develop access to its timber lands. We believe an aggressive policy of reinvestment is required in our industry to steadily improve productivity and to maintain on-going employment.

During 1977, working capital increased from \$634,948 to \$738,049.

The acquisition of Integrated Wood Products Ltd. and its subsidiaries has resulted in the Company's long term debt being increased substantially from \$143,137 to \$10,694,171. We are pleased that Balco had the ability to obtain the funds for this major acquisition, which more than doubles the Company's size, without any dilution of the shareholders' equity.

#### DIVIDENDS

Your Company paid a dividend of 12½¢ per share in May of 1977 and a further dividend of 12½¢ per share in November. The Directors believe it prudent not to increase the dividend beyond 25¢ a year until the long term debt is materially reduced.

#### OUTLOOK FOR 1978

The successful assimilation of Integrated Wood Products' two mills represents a major challenge to Balco. The continuing task to improve earnings is a formidable one. Much work has already been done which has shown encouraging results but there is still more to be done. On-going critical examination, along with orderly planning to schedule beneficial changes in facilities and rationalization of corporate resources, is the objective for the short and long term. Thanks to the admir-

able cooperation and enthusiasm displayed by employees at every level, we are confident that the challenge will be met effectively.

We are optimistic that the North American lumber market will show continuing strength — particularly during the first half of the year. While housing starts in the United States are projected to decline moderately to 1.8 million (from a 1977 level of almost 2 million); this decline is expected to be offset by increases in non-residential construction as well as continued strength in the repair and remodelling fields. Housing starts in Canada are projected to show continuing relative strength at a level of about 235,000.

While construction activity will be reasonable in the Canadian market, plywood will continue to be highly competitive — primarily as a result of general expansion in the productive capacity of competitive panelboards, particularly waferboard. Modest improvement in both price and volume is expected from our export plywood markets — notably in Europe.

Also on the positive side is the fact that the major Collective Agreements in the forest industry do not expire until mid-1979; 1978 should be a year of labour stability.

The continuation of a depressed pulp market will adversely affect our ability to sell our chips and hog fuel. Despite our efforts to moderate the production of chips and our participation in export chip shipments, our stockpiles will continue to grow.

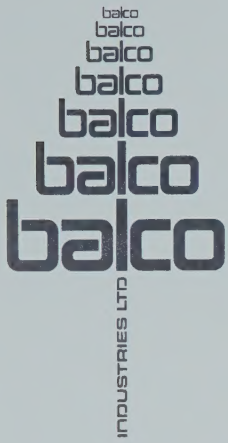
The Company's 1978 capital expenditure program is \$4,080,759. This includes \$363,894 for main logging











roads and \$510,000 for projects carried forward from 1977. No major capital expenditures are projected for new facilities this year; the emphasis is on up-grading and replacement of existing machinery and equipment.

#### CONCLUSION

We wish to take this opportunity to extend our warm appreciation to each of our employees for their contribution to the progress of Balco and also to our contractors and suppliers whose efforts are so essential to our performance.

In summary, the Directors and Management of your Company are looking forward to a productive and improving period in 1978 — a year marking the emergence of Balco as one of the B.C. Interior's larger forest products companies. We are positive that with the continued good will of our work force it will be a rewarding year.

On behalf of the Directors

A handwritten signature in dark ink, appearing to read "D. L. Salasini".

February 1978



## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Balco Industries Ltd., as at November 30, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of Balco Industries Ltd. and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of Integrated Wood Products Ltd. and its subsidiary companies.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at November 30, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Tarrell Gould Elliott*

Chartered Accountants

Kamloops, B.C.  
January 20, 1978

## Consolidated Statement of Earnings

For the year ended November 30, 1977

	1977	1976
<b>Sales</b>	<b>\$35,219,067</b>	<b>\$18,530,803</b>
<b>Costs and expenses</b>		
Cost of sales	27,357,653	13,759,346
Depreciation, depletion and amortization	1,727,688	752,360
Administration and other expenses	1,350,940	842,749
Interest - on current debt	186,827	12,430
- on long-term debt	384,416	52,382
	<b>31,007,524</b>	<b>15,419,267</b>
<b>Earnings from operations</b>	<b>4,211,543</b>	<b>3,111,536</b>
<b>Equity in (loss) of 50% owned company</b>	<b>(3,132)</b>	<b>(24,603)</b>
<b>Earnings before income taxes</b>	<b>4,208,411</b>	<b>3,086,933</b>
Provision for income taxes - current	1,179,587	1,202,162
- deferred	513,761	171,050
<b>Earnings before extraordinary item</b>	<b>2,515,063</b>	<b>1,713,721</b>
<b>Extraordinary item</b>		<b>179,038</b>
<b>Earnings for the year</b>	<b>\$ 2,515,063</b>	<b>\$ 1,534,683</b>
<b>Earnings per share</b>		
Earnings before extraordinary item	\$ 2.50	\$ 1.70
Earnings for the year	\$ 2.50	\$ 1.53

## Consolidated Statement of Retained Earnings

For the year ended November 30, 1977

	1977	1976
<b>Balance at beginning of year</b>	<b>\$ 4,355,255</b>	<b>\$ 3,097,222</b>
<b>Earnings for the year</b>	<b>2,515,063</b>	<b>1,534,683</b>
	<b>6,870,318</b>	<b>4,631,905</b>
<b>Dividends</b>	<b>251,500</b>	<b>276,650</b>
<b>Balance at end of year</b>	<b>\$ 6,618,818</b>	<b>\$ 4,355,255</b>

The accompanying notes are an integral part of these Financial Statements



## Consolidated Balance Sheet

As at November 30, 1977

	1977	1976
<b>Current Assets</b>		
Cash		\$ 833,803
Accounts receivable - note 3	\$ 5,465,896	1,763,163
Income taxes receivable	31,254	
Inventories - notes 2 and 3	8,641,000	1,804,124
Prepaid expenses	44,879	13,889
	14,183,029	4,414,979
<b>Less current liabilities</b>		
Bank indebtedness - note 3	6,709,159	
Accounts payable	4,945,319	2,411,263
Income taxes payable	527,755	1,263,659
Long-term debt instalments due within one year	1,262,747	105,109
	13,444,980	3,780,031
<b>Working Capital</b>	738,049	634,948
<b>Invested capital</b>		
Timber deposits and private timber	496,541	122,636
Property, plant and equipment - note 4	20,092,725	5,957,861
Investment in affiliated company - note 5		67,341
Deferred charges and other assets - note 7	79,906	69,593
	20,669,172	6,217,431
<b>Less:</b>		
Long-term liabilities - notes, agreements and mortgages payable - note 6	10,694,171	143,137
Deferred income taxes	2,787,565	1,047,320
	13,481,736	1,190,457
<b>Net invested capital</b>	7,187,436	5,026,974
<b>Shareholders' equity</b>	\$ 7,925,485	\$5,661,922
<b>Represented by:</b>		
Common shares without par value		
Authorized 2,000,000 shares		
Issued and fully paid 1,006,000 shares	\$ 1,290,000	\$1,290,000
Retained earnings	6,618,818	4,355,255
Capital surplus	16,667	16,667
<b>Shareholders' equity</b>	\$ 7,925,485	\$5,661,922

Approved on behalf of the board

J. R. Langille  
Director

A. L. Galsin  
Director

The accompanying notes are an integral part of these Financial Statements



## Consolidated Statement of Changes in Financial Position

For the year ended November 30, 1977

	1977	1976
<b>Source of working capital</b>		
Earnings before extraordinary item	\$ 2,515,063	\$1,713,721
Items not involving working capital		
Depreciation, depletion and amortization	1,757,688	752,360
Deferred taxes	513,761	171,050
Equity in loss of 50% owned company	3,132	24,603
	4,789,644	2,661,734
Net proceeds from disposal of assets	141,581	35,629
Assumption of long-term debt	8,891,466	72,000
Proceeds from sale of equity in 50% owned company	45,000	
Reduction in deferred charges		3,759
	13,867,691	2,773,122
<b>Application of working capital</b>		
Investment in plant and equipment	3,716,865	1,858,416
Investment in forest access roads	363,894	221,477
Payments on long-term debt	567,721	366,479
Payment of dividends	251,500	276,650
Purchase of private timber	188,300	26,966
Purchase of subsidiary company for \$7,507,444 plus working capital deficiency at acquisition of \$1,168,866	8,676,310	
	13,764,590	2,749,988
<b>Increase in working capital</b>	103,101	23,134
<b>Working capital at beginning of year</b>	634,948	611,814
<b>Working capital at end of year</b>	\$ 738,049	\$ 634,948

The accompanying notes are an integral part of these Financial Statements



## Notes to Consolidated Financial Statements

November 30, 1977

### 1. Summary of significant accounting policies

#### a) Principles of Consolidation

The consolidated financial statements include the accounts of Balco Industries Ltd. and its subsidiaries, all wholly-owned: Active - Integrated Wood Products Ltd., Fadear Creek Lumber Co. Ltd., Nicola Valley Sawmills Ltd., Waymark Services Ltd. Inactive - Balco Building Supplies Ltd., Bal Crete Construction Materials Ltd., Interior Block Manufacturing (1964) Ltd., Nicola Timber Limited, Red Diamond Trucking Company Ltd.

The investment in Pacific Overland Timber Ltd., a 50% owned company which was sold during the year, has been accounted for on the equity basis.

During the year the company acquired 100% of the shares of Integrated Wood Products Ltd., which has been accounted for as a purchase transaction. The operations of this company and its subsidiaries have been consolidated from July 1, 1977.

#### b) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost, other than for supplies, is determined by a weighted average cost method.

#### c) Property, Plant and Equipment

Property, plant and equipment includes cost of major replacements and betterments. Maintenance, repairs and minor replacements are charged against income as incurred.

#### d) Depreciation, Depletion and Amortization

Depreciation of property and equipment is provided on a straight-line basis at rates varying from 4% to 20%. The application of these rates for the year ended November 30, 1977 results in a composite rate of 7.3%. The rate for each class of property is based on estimated economic life.

Depletion of timber cutting rights is provided on the basis of timber harvested.

Logging roads are amortized as follows:

Balco Industries Ltd. - as timber is harvested at rates determined with reference to volumes of timber estimated to be removed over such facilities.

Fadear Creek Lumber Co. Ltd. and Nicola Valley Sawmills Ltd.

- on the straight-line method based on an estimated useful life of 10 years for all roads constructed prior to 1974.

- at 30% on the declining balance basis on roads constructed subsequent to 1973.

#### e) Deferred Income Taxes

Deferred income taxes are provided to recognize the effect of timing differences between accounting and taxable income.

#### f) Income Taxes

Investment tax credits on qualified property purchased are used to reduce current income taxes payable in the year of realization. As a result current income taxes have been reduced by \$175,332 (1976 - \$72,118). The company has unrealized investment tax credits of \$128,023.

### 2. Inventories

	1977	1976
Logs	\$4,534,000	\$ 854,058
Lumber	2,768,000	513,000
Veneer	206,000	113,000
Plywood	589,000	126,000
Fuel, oil, parts and supplies	544,000	198,066
	<b>\$8,641,000</b>	<b>\$1,804,124</b>

### 3. Bank indebtedness

The company has granted its bank a general assignment of accounts receivable, hypothecation of inventories and a demand debenture covering all assets of the company to secure its indebtedness.



#### 4. Property, plant and equipment

	Cost	Accumulated Depreciation & Amortization	Net Book Value
Land	\$ 1,520,293		\$ 1,520,293
Plant and equipment	26,960,666	\$ 9,270,414	17,690,252
Roads	3,555,717	2,673,537	882,180
Total	\$32,036,676	\$11,943,951	\$20,092,725

#### 5. Investment in affiliated company

During the year the company disposed of its 50% equity in Pacific Overland Timber Ltd., for net proceeds of \$45,000. The company's share of the operating loss was \$3,132 in 1977 and \$24,603 in 1976.

#### 6. Agreements and mortgages payable

	Principal Payments Due Within One Year	Total
Chattel Mortgage secured by certain plywood equipment payable in quarterly instalments of \$19,080 at an interest rate not to exceed 8 1/4 % per annum	\$ 38,159	\$ 38,159
Agreement Payable, unsecured, payable in monthly instalments of \$1,500 with interest at 9% per annum	18,000	67,500
Promissory Note plus accrued interest, payable in annual instalments of \$800,000 starting June 28, 1981, interest accrued at 7% per annum payable June 28, 1988		5,766,466
Equipment Contracts payable, repayable over the next 54 months	39,618	68,035
First Mortgage on service centre payable in monthly instalments of \$1,232 including interest at 8 1/2 % per annum, maturing in September, 1979	11,970	36,758
Demand Bank Loans, repayable by arrangement as follows plus interest at prime plus 1% - note 3		
- \$40,000 monthly	480,000	1,880,000
- \$125,000 quarterly	375,000	2,600,000
- \$75,000 quarterly	300,000	1,500,000
	\$1,262,747	11,956,918
Principal payments due within one year		1,262,747
		\$10,694,171

The annual maturities of long-term debt for each of the next five years are as follows:

1978	\$1,262,747
1979	\$1,347,705
1980	\$1,300,000
1981	\$2,055,000
1982	\$1,600,000



## 7. Statutory information

Remuneration to directors and senior officers (as defined by the B.C. Companies Act) of the company in their capacities as directors, officers and employees of the company in the current fiscal period was \$234,385 (1976 - \$219,222) including \$64,572 to directors, of which \$8,800 was directors' fees.

Other assets include a loan to an officer and a director of a subsidiary Company of \$36,160.

## 8. Commitments and contingent liabilities

The company has entered into agreements to lease equipment for varying terms, expiring in 1980. Total commitment under these leases at November 30, 1977 is \$284,807, which is payable as follows:

1978	\$175,937
1979	\$ 74,870
1980	\$ 34,000

The company has a commitment to sell \$750,000 U.S. dollars per month for the next thirteen months at rates ranging from \$1.1045 to \$1.10825.

During the year the company commenced construction of a new planer mill with an estimated total cost of \$2,137,000 of which \$1,567,000 was recorded to November 30, 1977.

## 9. Acquisitions

During the year the company acquired 100% of the shares of Integrated Wood Products Ltd. This transaction has been accounted for by the purchase method. The assets and liabilities of Integrated Wood Products Ltd. are included in the accompanying consolidated balance sheet as at November 30, 1977 and the results of its operations are reflected in the consolidated earnings statement from July 1, 1977, the date of acquisition.

The purchase price has been allocated as follows:

Timber cutting rights at book value		\$ 118,911
Tangible assets at book value	\$14,535,585	
Adjustment to reflect assigned value of tangible assets	3,862,164	18,397,749
		18,516,660
Liabilities at assigned value		11,009,216
Cash consideration		\$ 7,507,444

## 10. Anti-inflation act

The company is subject to the Anti-Inflation Act and accordingly is subject to controls on prices, profits, compensation and dividends.

The company has complied for the years ended November 30, 1975, 1976 and 1977.



## DIRECTORS OF THE COMPANY

### **D. L. Balison,**

President and Chief Executive Officer,  
Balco Industries Ltd., Kamloops, B.C.

### **P. J. G. Bentley,**

President,  
Canadian Forest Products Ltd., Vancouver, B.C.

### **J. G. Chaston,**

Chairman of the Board,  
Pemberton Securities Ltd., Vancouver, B.C.

### **R. L. Cliff,**

Chairman of the Board,  
Inland Natural Gas Co. Ltd., Vancouver, B.C.

### **J. S. Farrell,**

Vice-President, Planning  
Cornat Industries Limited, Vancouver, B.C.

### **J. R. Longstaffe,**

Executive Vice-President,  
Canadian Forest Products, Vancouver, B.C.

### **J. A. Robinson,**

Group Vice-President,  
Wood Products Manufacturing  
Canadian Forest Products Ltd., Vancouver, B.C.

### **W. M. Robson,**

Vice-President,  
Marketing and Transportation, Wood Products  
Canadian Forest Products Ltd., Vancouver, B.C.

## OFFICERS OF THE COMPANY

### **J. R. Longstaffe,**

Chairman, Vancouver, B.C.

### **D. L. Balison,**

President and Chief Executive Officer,  
Kamloops, B.C.

### **T. G. Jeanes,**

Vice-President, Woodlands, Kamloops, B.C.

### **J. Miyazawa,**

Vice-President, Administration, Kamloops, B.C.

### **J. Y. Obana,**

Vice-President, Finance & Controller  
Kamloops, B.C.

### **L. H. Rodrigue,**

Vice-President, Production, Kamloops, B.C.

### **R. E. Weinman,**

Secretary, Vancouver, B.C.

## BUSINESS LOCATIONS

### **Company Offices:**

R.R. No. 3, Kamloops, B.C. V2C 5K1

### **Auditors:**

Jarrett, Goold & Elliott, Chartered Accountants,  
Kamloops, B.C.

### **Solicitors:**

Rogers, Hunter & Company, Kamloops, B.C.

### **Bankers:**

Canadian Imperial Bank of Commerce,  
Kamloops, B.C.  
The Royal Bank of Canada, Merritt, B.C. for  
Nicola Valley Sawmills Limited

### **Transfer Agent and Registrar:**

Yorkshire Trust Company, Vancouver, B.C.

### **Wholly-Owned Subsidiaries:**

#### **Active:**

Integrated Wood Products Ltd.,  
Kamloops, B.C.  
Fadear Creek Lumber Co. Ltd.,  
Louis Creek, B.C.  
Nicola Valley Sawmills Limited, Merritt, B.C.  
Waymark Services Ltd., Kamloops, B.C.

#### **Inactive:**

Balco Building Supplies Ltd.  
Bal Crete Construction Materials Ltd.  
Interior Block Manufacturing (1964) Ltd.  
Nicola Timber Limited  
Red Diamond Trucking Company Ltd.

### **Annual General Meeting:**

Tuesday, April 4, 1978 at 5:00 p.m.  
in the Georgia Hotel, Vancouver, B.C.



